

BOARD OF THE METROPOLITAN SEWERAGE DISTRICT

DECEMBER 15, 2004

1. Call to Order and Roll Call:

The regular monthly meeting of the Metropolitan Sewerage District Board was held in the Boardroom of MSD's Administration Building at 2:00 PM, Wednesday, December 15, 2004. Chairman Blackburn presided with the following members present: Aceto, Ball, Bellamy, Bryson, Graham, Kelly, Pace, Sobol VeHaun and Venable. Mr. Gantt was absent.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Leah Karpen with the League of Women Voters, Gary McGill with McGill Associates, Robert Hobson with Banc of America, Ray Quintin with Cherry Bekaert & Holland, Richard Tsang with Camp Dresser & McKee, Joseph Martin with Woodfin Sanitary Water & Sewer District, Martha Zeigler, Stan Boyd, Ed Bradford, John Kiviniemi, Ken Stines, Roger Watson, Julie Willingham, Peter Weed, Scott Powell and Sondra Honeycutt, MSD.

2. Approval of Minutes of the November 10, 2004 Meeting:

Mr. Pace moved that the Minutes of the November 10, 2004 Meeting be approved as presented. Ms. Graham seconded the motion. Voice vote in favor of the motion was unanimous.

3. Discussion and Adjustment of Agenda:

Mr. Blackburn stated that items d. and e. of the Consolidated Motion Agenda will be considered following the report of the General Manager. Ms. Ball requested that item b. be pulled because of a conflict of interest and Mr. Venable requested that item g. be pulled.

4. Discussion and Adjustment of Agenda:

Mr. Blackburn welcomed Leah Karpen with the League of Women Voters, Robert Hobson with Banc of America, Ray Quintin with Cherry Bekaert & Holland and Richard Tsang with Camp Dresser & McKee.

5. Report of General Manager:

Mr. Hartye presented information regarding Belt Press and Incinerator Upgrade, GFOA Award, Reading, Correspondence and Board/Committee Meetings:

Mr. Hartye reported that the incinerator is up and running and expressed his appreciation to John Kiviniemi and Staff for the extra hours spent in helping the contractor. Mr. Venable asked if MSD is still using the landfill. Mr. Hartye stated that there is some stockpile of Nutri-Lime to haul, but MSD will not be creating any more.

Regarding the GFOA Award, Mr. Hartye reported that the District has received the Distinguished Budget Presentation Award for the current fiscal year from the Government Finance Officers Association (GFOA). He expressed his thanks to Martha Zeigler, Scott Powell and Teresa Gilbert for their efforts.

Mr. Hartye presented an article from the Chamber of Commerce; Asheville Economy Q&A on Industry Growth and Residential Building Permits and an article regarding Atlanta.

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With regard to Correspondence, Mr. Hartye presented a letter of appreciation from Daniel Dolan to Ann LeMieux for good customer service; a letter from the Asheville-Buncombe County Vision regarding suspension of operations and a letter to Henderson County Utilities regarding the Mud Creek Water & Sewer District (MCWSD). He presented a map showing the Mud Creek Water and Sewer District and the Cane Creek Water & Sewer District (CCWSD). Mr. Hartye reported that in 1994 the MSD had agreements with both the MCWSD and the CCWSD for wastewater treatment. He stated that the MCWSD no longer plans to construct a treatment plant to serve its area since it was annexed by the CCWSD. He further stated that MSD will continue to accept wastewater from users in the MCWSD who are primarily located in the Naples area. Mr. Venable asked if MSD has an allocation limit as it applies to CCWSD. Mr. Hartye stated yes, that the limit is 1.35 mgd. He further stated that CCWSD is currently using less than half of its total allocation, but may want to increase the limit at some future date. Mr. Venable asked if the MSD is under any obligation to increase CCWSD's allocation. Mr. Clarke stated no.

Regarding Board/Committee Meetings, Mr. Hartye reported that the next regular Board Meeting is scheduled for January 19th at 2PM.

Regarding Consolidated Motion Agenda Items d. (Comprehensive Annual Financial Report) and e. (Response to Management Letter) Mr. Hartye recognized Mr. Ray Quintin of Cherry Bekaert & Holland, the District's auditing firm.

Mr. Quintin expressed his appreciation to the Board for allowing his firm the opportunity to perform the audit and to Martha Zeigler, Scott Powell and Teresa Gilbert for their help. Mr. Quintin reported that the audit is complete and the financial statements were reviewed by the Local Government Commission and delivered to the District. He stated that the audit has a clean opinion on the

Financial Statements. Also, the District was not subject to Federal or State Single Audit requirements.

Mr. Quintin gave a presentation on the net assets and operations of the District for 2004 as compared to 2003. He reported that continuing regulatory focus on services provided by auditors is anticipated to continue and likely result in changes to standards of performance in areas such as independence, fraud detection and others. He stated that a copy of the required communications letter and management letter were provided. Ms. Ball asked for clarification on staff's response to the management letter with regard to tracking fixed assets, particularly, increasing the current capitalization threshold for fixed assets from the current \$1,000 to \$15,000 so that anything less than \$15,000 would not be tagged. Ms. Zeigler stated that those items would be tagged, but as far as being presented on the financial statements as an asset, they would not. She further stated that she is working on a draft of a revised Fixed Asset Policy which will come before the Board at the January meeting. Mr. Aceto asked if this is a property control issue or a financial statement issue. Ms. Zeigler stated it was both. Ms. Ball asked if there will be a separate data base for those items between \$1,000 and \$15,000 and if the District has a Policy for Surplus Property. Ms. Zeigler stated that there would be separate data bases and that a Surplus Property Policy was adopted earlier this year. A discussion followed regarding how the District currently controls its fixed assets. Regarding the CAFR, Mr. Aceto asked for an explanation on the decrease in unrestricted assets. Mr. Quintin stated that the decrease is due to using unrestricted assets to build capital assets. With no further discussion, Ms. Graham moved that the Board approve Items d. and e. of

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the Consolidated Motion Agenda. Ms. Bellamy seconded the motion. Roll call vote was as follows: 11 Ayes; 0 Nays.

6. Consolidated Motion Agenda:

Ms. Bellamy moved that the Board approve Items a. c. f. h. i. of the Consolidated Motion Agenda. Ms. Graham seconded the motion. Mr. Hartye went over the following items:

a. Consideration of Developer Constructed Sewer Systems: Biltmore Oaks, Mountain Living Community, Arden Ingles Store #130 and Christ School Sewer Extension:

Mr. Hartye reported that staff recommends acceptance of the developer constructed sewer systems and that all MSD requirements have been met. In addition to the information regarding each system, Mr. Hartye presented a copy of the Cost Recovery projects and amounts to date. Mr. Sobol asked if the costs for this program are coming out of CIP and for what period of time. Mr. Hartye stated yes, that there is a line item in CIP called Reimbursements and is for the period from May, 2002 to present. Mr. Bradford stated the budgeted amount is \$250,000.00. Mr. Sobol asked how much staff anticipates being over the budgeted amount. Mr. Bradford stated that if projects in construction come in under budget the balance of the approved construction budget can be used to pay for the projected overage of approximately 5,000.00.

b. Consideration of City of Asheville Constructed Sewer System: 2002 Annexation Area Sewer Improvements:

Mr. Hartye reported that staff recommends acceptance of City of Asheville constructed sewer system. All MSD requirements have been met.

c. Consideration of Selection of Engineering Consultant for the Wastewater Treatment Plant for a period of five (5) years.

Mr. Hartye reported that staff sent out a Request for Qualifications for Wastewater Engineering Services and received responses from nine (9) engineering firms. Following review of each submittal, based on various criteria, two firms were invited to give an in-depth presentation. He further reported that staff recommends award of a Contract for Wastewater Engineering Services to Camp, Dresser & McKee (CDM) for a period of five (5) years contingent upon approval by District Counsel. Mr. Venable asked what the procedure is for determining a fee for services and what alternatives does the District have to go to someone else other than CDM. Mr. Hartye stated that the District can get out of the Agreement with CDM at any time if there is a disagreement on the fee. He further stated that basically the purpose of the General Services Agreement is to go through the selection process for a five year period and negotiate fees for the various task orders without having to go through the RFP/RFQ process each and every time. Mr. Clarke stated that there is nothing binding in the Agreement and the law requires that if you have a project for Engineering/Architectural services for more than \$30,000 then the MSD must advertise what needs to be done, select an Engineer/Architect based on qualifications, and only then can a fee be negotiated.

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d. Consideration of Comprehensive Annual Financial Report – June 30, 2004:

Mr. Hartye reported that staff recommends acceptance of the CAFR.
[Approved under Report of General Manager]

e. Response to Management Letter:

Mr. Hartye reported that staff recommends approval of the proposed actions set forth in the response to the Management Letter.[Approved under Report of General Manager]

f. Consideraton of Vehicle Purchase Contract:

Mr. Hartye reported that the following bids for four (4) replacement vehicles were received on November 29, 2004: E-Golf Motors with a total bid of \$99,816.00; Benson Chrysler with a total bid of \$99,948.00 and Ilderton Dodge with a total bid of \$99,116.00. He further reported that staff recommends that the Board award the bid to Ilderton Dodge in High Point, NC in the amount of \$99,116.00. Ms. Bellamy asked how staff determines the need to replace vehicles. Mr. Weed presented a spread sheet showing the rotation cycle for pick-up trucks, combo trucks, trailers and other heavy equipment. He stated that after the seven-year cycle the trucks then become surplus property. Mr. Venable asked if the new trucks come with a warranty. Mr. Weed stated the trucks come with a full factory warranty.

g. Consideration of Series Resolution:

Mr. Hartye reported that staff recommends approval of the Series Resolution authorizing issuance of the 2005 Bonds.

h. Cash Commitment/Investment Report – Month ended October 31, 2004:

Presented as information only.

i. Consideration of Contract for Grit & Grease Removal Preliminary Engineering Report:

Mr. Hartye reported that because of a growing concern at the plant regarding the Grit and Grease removal process, staff recommends approval of Task Order No. 1 in the amount of \$39,800 for a Preliminary Engineering Report on Grit and Grease removal, subject to review and approval by District Counsel.

Regarding Item a. (developer constructed sewer systems) Ms. Ball asked if any of the systems are outside the District. Mr. Clarke stated that MSD can own sewer systems outside the District. Ms. Ball stated that taking over systems outside the District should require some additional thought beyond just acceptance. Mr. Hartye stated that whether a system is inside or outside the District is noted in the background information provided and that Christ School sewer extension is the only one outside the District.

Regarding Item i. (Contract for Grit & Grease Removal), Mr. Venable asked what is meant by "Space at the WWTP is at a high premium". Mr.

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Keviniemi stated that staff is referring to available space for the process equipment, not the building itself.

Regarding vehicle replacement, Ms. Ball stated that while attending the APWA Convention she learned about the use of a point system for vehicle replacement and suggested that staff look into the possibility of using this system.

With regard to item h. (cash commitment/investment report) Mr. Blackburn stated that although the report shows the District has \$25million, this amount does not reflect contractual commitments or encumbrances against said funds.

With no further discussion, roll call vote was as follows: 11 Ayes; 0 Nays.

Regarding Item b. (City of Asheville Constructed Sewer System), Mr. Blackburn excused Ms. Ball and Ms. Bellamy from voting because of a conflict of interest. Ms. Graham moved that the Board approve the recommendation of Staff. Ms. Bryson seconded the motion. Mr. Hartye reported that the project includes installation of approximately 720 linear feet of 8” gravity sewer pipe to serve existing residential homes that were annexed into the corporate limits of the City of Asheville. Mr. Aceto asked if all of the annexation obligations under the Consolidation Agreement have been met. Mr. Hartye stated that approximately 95% are complete. Ms. Ball stated that the City of Asheville has one project that it has a financial obligation to complete as a result of hurricane damage and that inspection will take place this week. With no further discussion, roll call vote was as follows: 9 Ayes; 0 Nays.

Regarding Item g. (Resolution authorizing issuance of Bonds), Ms. Graham moved that the Board approve the Series Resolution. Ms. Bryson seconded the motion. Ms. Zeigler reported that on page 31 of the Series Resolution, Item F. (Negotiated Sale) that the initial interest rate for the Series 2005 Bonds shall not exceed 4% per annum instead of 6% as shown. Regarding the recent rate increase, Mr. Venable stated that in a conversation with Ms. Zeigler she stated that the LIBOR would effectively offset changes in the variable bonds if the Board decides to issue them. He asked Mr. Hobson with the Banc of America for his opinion. Mr. Hobson stated that even though short term interest rates rose a quarter of a basis point, long term rates came down, which is good for the swap rate. He further stated that the District’s concern is not so much whether the interest rate on the variable rate bond is low, medium, or high, but on how well the rate correlates with the amount the District is getting under the swap agreement. Mr. Venable asked why Banc of America couldn’t tie its rate back to

the District to the variable rate market rather than to the LIBOR. Mr. Hobson stated that they could, but the problem is rather than a 3.50% rate, the District would be looking at a 4.25% rate. By using the LIBOR the correlation is not perfect, but over time there is a very good correlation. Mr. Hobson reported that as of today, the District would realize a 7.75% savings, which is higher than reported on December 3rd. Mr. Venable asked if the BMA index, as opposed to the LIBOR, is available to the District, which more closely matches what the variable rate is. Mr. Hobson stated that BMA is an index of about 25 or 35 variable rate issues just like Buncombe MSD is a variable rate issue so the bottom line is the variable rate MSD would be paying on its bonds would be within 1 to 2 basis points of BMA. Mr. Sobol asked how much of a risk MSD is taking with variable rate bonds and briefly discussed long-term trends as opposed to short-term trends. Mr. Hobson stated that the fact that we are at a low point in time as far as interest rates go is a good thing. The risk is not if the rates go up, the risk is

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if rates on the bonds go up, but the corresponding rate on the valid money MSD is getting from Banc of American on a swap, does not correspondingly go up. Mr. Sobol stated that he feels the Board is gambling with the rate payers money and feels it would be better off staying with a fixed rate and not expose itself to the risks. Mr. Venable stated that he is aware that the Local Government (LGC) recommends that MSD not have more than 25% of its debt in variable rate bonds, but asked if they have issued any suggestions with respect to synthetic fixed rate. Ms. Zeigler stated no, that they consider the Swap Agreement a fixed rate. Mr. Hobson reported that Standard & Poor's affirmed the AA rating for this bond issue. Also, on a scale of 1 to 5 (1 being the best) Standard & Poor's rated the District's credit exposure on the Swap at 2, which is a credit neutral rating.

With no further discussion, Mr. Blackburn called for the question. Roll call vote was as follows: 8 Ayes; 3 Nays (Mr. Sobol, Mr. VeHaun and Mr. Venable)

7. Old Business:

None

8. New Business:

None

9. Adjournment:

Mr. Pace moved for adjournment at 3:10 PM. Ms. Graham seconded the motion. Voice vote in favor of the motion was unanimous.

Jackie W. Bryson, Secretary/Treasurer